

*JOINT COMMITTEE ON TAX POLICY*

## **Tax Credit Review 2007**

The Joint Committee on Tax Policy has examined the following tax credits during the 2007 interim and in accordance with Section 21.810.2(4), RSMo, makes the following recommendations to the Missouri General Assembly for legislative action:

### ENVIRONMENTAL TAX CREDITS

#### **1. *Charcoal Producer Tax Credit as described in Section 135.313, RSMo.***

##### **Purpose:**

Charcoal smoke contains chemicals that are toxic or carcinogenic. An afterburner can destroy the harmful chemicals. To provide an incentive to implement safe and efficient environmental controls, a tax credit award of up to 50% of the purchase price for best available control technology equipment was created.

The credit was set to terminate 8 years after its inception (1998). The credit could be awarded for purchases of the equipment up until the end of 2005. Credits could be redeemed through 2012 because of the 7 year carry-forward provision built into the credit.

The Department of Natural Resources certified the best available technology and the cost associated with building the environmental control device. The Department of Economic Development Awards the credits and the Department of Revenue redeems the credit.

##### **Testimony:**

*- Peter Yronwode and Jim McNichols, Department of Natural Resources*

Overall, the program was successful in accomplishing its intended purpose. The Department of Natural Resources performs stack tests to determine the emissions of chemicals in the charcoal smoke as they are released into the air. The eligibility for the credit may have been too lax as some of the companies may have qualified for the credit that may not have been intended by the legislature to receive the credit.

##### **Recommendation:**

The committee recommends no change be made.

## **2. *Wood Energy Tax Credit as described in Sections 135.300-135.311, RSMo.***

### **Purpose:**

The credit was originally enacted in 1985 to provide an incentive to sawmills to make fuel pellets from their sawdust instead of letting the sawdust pile up on sawmill property; the credit expired on June 30, 1991. The tax credit was reenacted in 1996 but was changed to extend the eligibility of the credit to include charcoal producers. The credit also encouraged the use of wood pellets as an energy source instead of natural gas.

The credit is worth \$5 per ton of wood pellets or wood flour produced and is worth \$20 for each ton of wood char produced. The EPA has determined that four tons of wood residue is needed to produce one ton of wood char.

Documentation of the sale of the processed wood is required to receive the credit. The Department of Natural Resources certifies to the Department of Revenue that a wood energy tax credit applicant qualifies as a wood energy-producing facility.

### **Testimony:**

- *Roger Korenberg and Jim McNichols, Department of Natural Resources*  
Charcoal producers wanted to use this credit along with the charcoal producer tax credit to help offset the costs of environmental regulations. Approximately 500-600 people are employed in the industry.
- *Steve Flick, Show Me Energy Cooperative*  
Expressed support for any tax credit that encouraged renewable energy.
- *Phil Wright, Midwest Alliance for Renewable Energy*  
Expressed support for any tax credit that encouraged renewable energy. Missouri should promote renewable energy through its tax scheme.
- *Brian Brookshire, Missouri Forest Products Association*  
Expressed his support and advocated for maintaining of the Wood Energy Tax Credit.

### **Recommendation:**

The committee recommends that no new credits be authorized after June 30, 2010.

## **3. *Manufacturer Recycling Flexible Cellulose Casings Tax Credit as described in Section 260.285, RSMo.***

### **Purpose:**

The tax credit was designed to encourage recycling of cellulose casings of sausage products.

The entity that applies for the credit is eligible for a tax credit worth the sales tax that they pay for the cellulose casings if the entity recycles the casings.

A definition from the University of Nebraska- Lincoln, Animal Science Department's meat glossary is as follows:

**Tesimony:**

- *Jim McNichols, Department of Natural Resources*

Testified for information purposes only regarding the credit. DNR certifies to the Department of Revenue that the flexible cellulose casings have been recycled.

- *Casey Richey, Department of Revenue*

Testified for information purposes only. DOR awards the credit after receiving certification from DNR that the materials have been recycled.

**Recommendation:**

The committee recommends that the credit be repealed and all references to such credit be removed from statute.

**TRAINING & EDUCATIONAL TAX CREDITS**

***4. Skills Development Account Tax Credit***

**Purpose:**

The credit was created to encourage employee advancement and skill development by offering tax credits to participating companies located in "distressed communities."

The intent was to help employees with lower skills and limited income upgrade their work skills and earn a higher wage.

The program was repealed in 2004.

**Testimony:**

- *Amy Deem, Department of Economic Development*

The Department testified for information purposes only.

**Recommendation:**

The committee recommends that all references to the credit be removed from statute.

## ***5. Mature Worker Tax Credit***

### **Purpose:**

The program was created to establish a community service to enroll disadvantaged individuals, aged 50 or older, to work in child care assignments.

The program was repealed in 2004.

### **Testimony:**

- *Amy Deem, Department of Economic Development*  
The Department testified for information purposes only.

### **Recommendation:**

The committee recommends that all references to the credit be removed from statute.

## ***6. Community College New Jobs Training Tax Credit as described in Sections 178.892-178.896, RSMo.***

### **Purpose:**

The credit was designed to provide an incentive for the creation of new jobs by providing training for workers in new or expanding industries in Missouri.

Community colleges sell bonds for the financing of the projects. In many cases, the participating company purchases these bonds. The money generated from the bonds is put into a fund controlled by the community colleges that reimburses all program and training costs. A portion of the Missouri employer withholding (2.5%/1.5%) from the new jobs is diverted monthly to retire the principal and interest of the bond debt for a period of 8 or 10 years. The company reports the monthly withholding credits to the Department of Revenue, which then forwards the withholding to the Department of Economic Development. DED forwards the credit to the trustee of the project to apply toward the project's debt.

The structure of the credit itself encourages the company to meet the terms of the agreement with the Department of Economic Development. If the company does not create the predetermined number of jobs, the anticipated withholding taxes will not be diverted and the training will not be paid. A clawback provision is included with each project which allows the Department of Economic Development to take back the credit awarded if the company does not meet the pre-determined terms of the agreement.

Eligible industries include companies engaged in manufacturing, conducting research and development, or providing services in interstate commerce.

**Testimony:**

- *Amy Deem and Alicia Roling, Department of Economic Development*

The Department testified for information purposes.

- *Gary Sage, Metropolitan Community College of Kansas City and Missouri Community College Association*

Testified in favor of the credit and also gave an explanation of the community colleges' role in the program.

- *Bryan Miller, Harley-Davidson Motorcycles*

Testified in favor of the program. Harley Davidson Motorcycles has participated in the Community College New Jobs Training Program. The program is important in not only growing their business but in also maintaining competitiveness in the market.

- *Bernd Vogt, Harmon Becker & Associates*

Testified in favor of the credit. The Community College New Jobs Training Program was instrumental in their decision on where to locate their business. They would not have located in Missouri but for the New Jobs Training Program.

**Recommendation:**

The committee recommends that the program be maintained as is in the statutes with the 2018 sunset provision.

**7. *Sponsorship and Mentoring Tax Credit as described in Section 135.348, RSMo.***

**Purpose:**

The credit is designed to offer school-based, community-based, and/or work based mentoring for students determined to be at-risk of dropping out of school. The administering school district can request state permission to include students as mentoring recipients who do not meet any of the at-risk qualifications.

The General Assembly has not appropriated money for this tax credit since the credit's inception.

**Testimony:**

- *Doug Sutton, Department of Elementary and Secondary Education*

The Department testified for information purposes regarding the credit.

**Recommendation:**

The committee recommends that the program be repealed and all references to such program be removed from statute.

**SOCIAL & DOMESTIC TAX CREDITS**

***8. Senior Citizen Property Tax Credit (Circuit Breaker) as described in Sections 135.010-135.311, RSMo.***

**Purpose:**

The credit provides property tax relief for senior citizens and disabled persons under certain income thresholds in the form of an income tax credit. For 2008, the maximum income threshold is \$27,500 and the minimum base is \$14,300. The maximum award for the credit is \$750.

**Testimony:**

- Casey Richey, Department of Revenue

The Department testified for information purposes about the credit.

**Recommendation:**

The committee recommends that the income thresholds in place for tax year 2008 be made permanent. The committee also recommends that the maximum award be increased from \$750 to \$1000.

***9. Youth Opportunities Tax Credit as described in Sections 135.460 and 620.1100-620.1103.***

**Purpose:**

The credit is designed to broaden and strengthen opportunities for positive development and participation in community life for youth, and to discourage such persons from engaging in criminal and violent behavior.

Tax credits are allocated to organizations administering positive youth development or crime prevention projects that have been approved through the application process. Approved organizations secure contributions from their community, and the contributor receives tax credits for those contributions. There are 50% tax credits for monetary contributions and wages paid to youth in an approved internship,

apprenticeship or employment project, and 30% tax credits for property or equipment contributions used specifically for the project.

**Testimony:**

- *Brenda Horstman, Department of Economic Development*

The Department testified for information purposes.

- *Jim Braun, Youth In Need*

Testified in favor of the credit. Emphasized that the Youth Opportunities Program not only serves a humanitarian purpose of helping those in great need, but it is also successful as an economic development device that yields a significant return on investment.

- *Carmen Schultz and James Ford, MO Coalition of Children's Agencies*

Testified in favor of the credit. Spoke about the value of the Youth Opportunities Program for human services.

- *Patrick Dougherty, Catholic Charities of St. Louis*

Testified in favor of the program. Supported the efficacy of the credits. The credits have made a substantial positive impact on children and their families that the organization serves. The credits have leveraged funds to help hundreds of at-risk youth gain self-sufficiency. The areas the program has helped includes homelessness/housing, family and children counseling, and care for children in residential and non-residential settings.

- *Dr. Ken Fattman, Boys and Girls Town of Missouri*

Testified in favor of the credit. Particularly emphasized the credits impact on children with emotional or behavioral problems. The organization has served more than 5,200 children and family members through residential, foster care management, day treatment, community outreach and family therapy programs in Columbia, Springfield, St. James, and St. Louis.

**Recommendation:**

The committee recommends that no changes be made to the credit.

***10. Special Needs Adoption/Children in Crisis Tax Credit as described in Sections 135.327-135.339, RSMo.***

**Purpose:**

These two kinds of tax credits help finance special needs adoptions as well as help fund designated "Children in Crisis" centers.

The program involves two kinds of tax credit that share a common fund. The \$4,000,000 appropriation for the Special Needs Adoption tax credit is broken into two categories: one for resident adoptions and one for nonresident adoptions which each receive \$2,000,000 of the appropriation. The unused portion of the resident adoptions fund (the nonresident adoptions portion is used every year) can be used for the Children in Crisis tax credit.

**Testimony:**

- *Jim Brentlinger, Department of Revenue*

The Department testified for information purposes on the Special Needs Adoption portion of the credit.

- *Gina Jacobs, Department of Social Services*

The Department testified for information purposes on the Children in Crisis portion of the credit.

- *Rebecca Gordon, Kids First*

Testified in favor of the Children in Crisis program.

- *Anne Silea, Lutheran Family and Children's Services in Missouri*

Submitted written testimony in favor of the program. The organization performs many services in line with the purpose of the program including: CALL Mentoring Program for high-risk children and families in St. Louis, CHOICES Intervention Program for adolescent females (age 10-17) in St. Louis, and WINGS Crisis Pregnancy Counseling Program for young women across the state.

**Recommendation:**

The committee recommends that changes need to be made to the Special Needs Adoption Tax Credit to emphasize the adoption of Missouri children and also that the barriers to adopting children in Missouri be explored.

***11. Maternity Homes Tax Credit as described in Section 135.600, RSMo.***

**Purpose:**

The program helps fund maternity homes through a tax credit worth 50% of donations between \$100-50,000. Qualifying donations include cash, stocks, bonds, other marketable securities, and real property.

**Testimony:**

- *Patrick Luebbering, Department of Social Services, Children's Division*

The Department testified for information purposes.



**Recommendation:**

The committee recommends that no change be made to the credit.

***12. Shelter for Victims of Domestic Violence Tax Credit as described in Section 135.550, RSMo.*****Purpose:**

The program helps fund shelters for victims of domestic violence through a tax credit worth 50% of donations between \$100-50,000 to shelters. Qualifying donations include cash, stocks, bonds, other marketable securities, and real property.

This credit was originally administered by the Department of Public Safety; however, the administration of the credit was transferred to the Department of Social Services in August of 2006.

**Testimony:**

- *Gina Jacobs, Department of Social Services*  
The Department testified for information purposes.

- *Jim Clardy, Jefferson City Rape and Abuse Crisis Service & MO Coalition Against Domestic and Social Violence*  
Testified in support of the credit. The credit is instrumental in helping to fund domestic violence shelters.

**Recommendation:**

The committee recommends that no change be made to the credit.

***13. Shared Care Tax Credit as described in Sections 660.053-660.055, RSMo.*****Purpose:**

To provide financial assistance to person's caring for elderly individuals (age 60 and older).

To qualify for the credit, the caregiver must live in the same residence to give protective oversight of the care recipient for more than six months of the year and not receive any monetary compensation for providing the care. The credit can not exceed the caregiver's tax liability or \$500.

**Testimony:**

- *Randy Rodgers, Department of Health and Senior Services*  
The Department testified for information purposes.

**Recommendation:**

The committee recommends that no change be made to the credit but also the General Assembly should examine if the maximum award of \$500 is sufficient.

***Additional Recommendations:***

The committee recommends that legislation be enacted requiring all tax credit information be available to the public.

The committee also recommends that elected officials shall be required to disclose on their personal financial disclosure report any tax credits they receive from a Missouri tax credit program.